State of Wisconsin • **DEPARTMENT OF REVENUE**

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February 29, 2012

DOR Testimony in Support of Senate Bill 526

Summary.

The Legislature created a state Manufacturing and Agriculture Tax Credit via 2011 Wisconsin Act 32. This provides a tax credit of 7.5% against taxes on income derived from manufacturing and agricultural production activity that takes place on Wisconsin property. It is similar to the federal Qualified Production Activities Deduction.

The Manufacturing and Agriculture Credit takes effect in 2013 and is equal to 1.875% of income derived from manufacturing and agricultural activities performed in Wisconsin. The credit is phased-in through 2016 and eventually reaches its maximum of 7.5%.

Prior to the effective date of 2013, technical adjustments are necessary to ensure that the credit is administrable by the Department of Revenue (DOR) and also to ensure that the administration of the credit is consistent with the Legislature's intent. Senate Bill 526 does not have any fiscal effect and does not change the scope of the credit from 2011 Wisconsin Act 32. This technical legislation is necessary for three key reasons:

- The bill corrects a circular calculation that was included in 2011 Wisconsin Act 32.
- The bill provides certainty by providing bright lines for both DOR and taxpayers regarding this Wisconsin-specific credit.
- The bill removes unnecessary cross-references that were included in 2011 Wisconsin Act 32.

DOR has determined that clarifying legislation is desirable to make these changes so the credit can be implemented in accordance with the Legislature's intent.

Background.

More specific explanation follows of the three key changes created by Senate Bill 526.

- Corrects a circular calculation that was included in 2011 Wisconsin Act 32.

  Currently, the credit requires a farmer or manufacturer to know income in order to compute the credit. However, the credit is a component of income in the year that the credit is claimed. Since both components depend on each other, DOR and taxpayers would have difficulty in correctly administering and receiving the credit.

  Senate Bill 526 provides the following calculation instead.

  Step 1: Calculation of Eligible Qualified Production Activities Income.

  Total Qualified Production Income x Manufacturing (or Agricultural) Property Factor = Eligible Qualified Production Activities Income.

  Comment: This step separates out the manufacturing and farming that is performed in Wisconsin from the manufacturing or farming that is done in other states. This ensures that the credit is Wisconsin-specific.

Step 2: Calculation of the Manufacturing and Agriculture Credit.

Eligible Qualified Production Activities Income x Phased-In Credit Amount = Manufacturing and Agriculture Credit.

Comment: Since this credit is phased-in over four years, the calculation will vary initially. The table below shows how the phase-in will work.

Taxable Year			
2013	Qualified Production Activities Income x	1.875% =	Manufacturing and Agriculture Credit.
2014		3.75% =	
2015		5.526% =	
2016 and beyond		7.5% =	

- Provides certainty for both DOR and taxpayers regarding this Wisconsin-specific credit.

  The credit currently references the federal Internal Revenue Code (IRC) as it applies to the federal Qualified Production Activities Deduction.

  This credit is Wisconsin-specific and is limited to agriculture and manufacturing. The referenced IRC section includes several other categories that the Legislature has not included in the Wisconsin-specific credit. These extra categories are explicitly excluded in the bill. These extra industries are not agriculture or manufacturing and would not have been able to successfully claim the credit since their income generation does not occur on land assessed as agricultural or manufacturing. However, their inclusion in the IRC creates ambiguity for this Wisconsin-specific credit.

- Removes unnecessary cross-references that were included in 2011 Act 32.

  Generally speaking, the Legislative Reference Bureau mirrors language for corporate income tax credits in the insurance statutes since the corporate and insurance sections are distinct. The reason for mirroring the language in both sections is that many of the corporate credits are also available to insurance companies.

  However, insurance companies do not engage in agricultural or manufacturing activities, and the cross-reference of the credit in the insurance statutes is unnecessary.